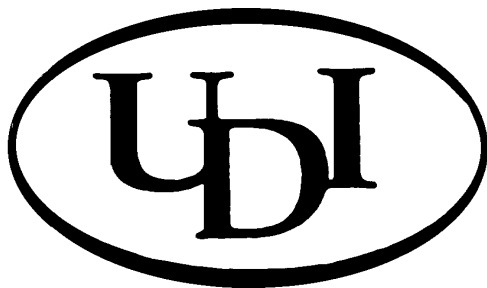


Creating Confidence in the Rental Housing Industry

2002 Ontario pre-Budget Submission

Prepared by

The Rental Housing Supply Alliance



March 2002

The Rental Housing Supply Alliance: Who We Are

- *Fair Rental Policy Organization (FRPO)*
- *Residential Construction Council of Canada (RESCON)*
- *Universal Workers Union – Local 183*
- *Urban Development Institute of Ontario (UDI)*

The Rental Housing Supply Alliance is an umbrella organization representing developers, builders, investors, landlord and property managers and labour. We promote policies that will assist and stimulate the production of a healthy purpose built rental housing supply within Ontario and across Canada. The RHSA is promoting a long-term sustainable approach to restore business and investment confidence in rental housing supply, through changes to Federal tax policy, CMHC's mandate, remaining provincial barriers and municipal policies, fees and charges.

Provincial Budget Themes 1996-2001

“Our goals have always been straightforward: to build a climate where jobs and prosperity are available equally and to all people; to maintain the quality of life that we enjoy in Ontario; and to ensure a healthy and secure future...full of hope and opportunity”

Premier Mike Harris

- » *Cutting Taxes and Creating Jobs*
- » *Investing in the Future... A Plan for the Future*
- » *Building a Better Tomorrow*
- » *Cutting Red Tape*
- » *Renewed Confidence and Optimism*
- » *Foundations for Prosperity*
- » *Helping Communities to Grow*

Basis of the Provinces Themes

CONFIDENCE

...in making investment decisions

CERTAINTY

...in knowing that investments will prosper

SOUND FISCAL MANAGEMENT

...to balance the budget and reduce the debt

TAX CUTS

...work in order to stimulate and re-invest in the economy

VISION AND LEADERSHIP

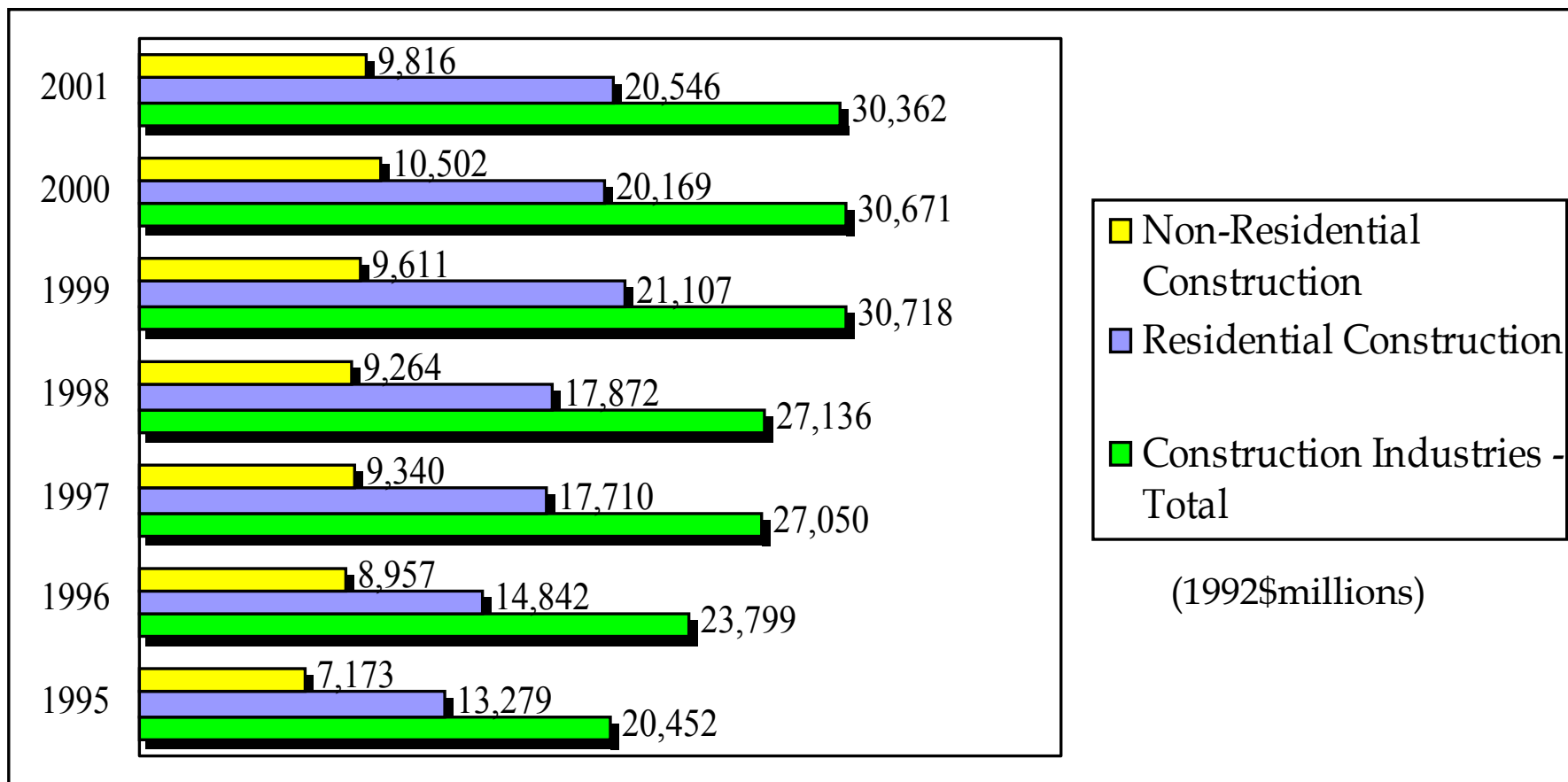
...to make tough decisions for a better future

PROMISES MADE

...Promises Kept

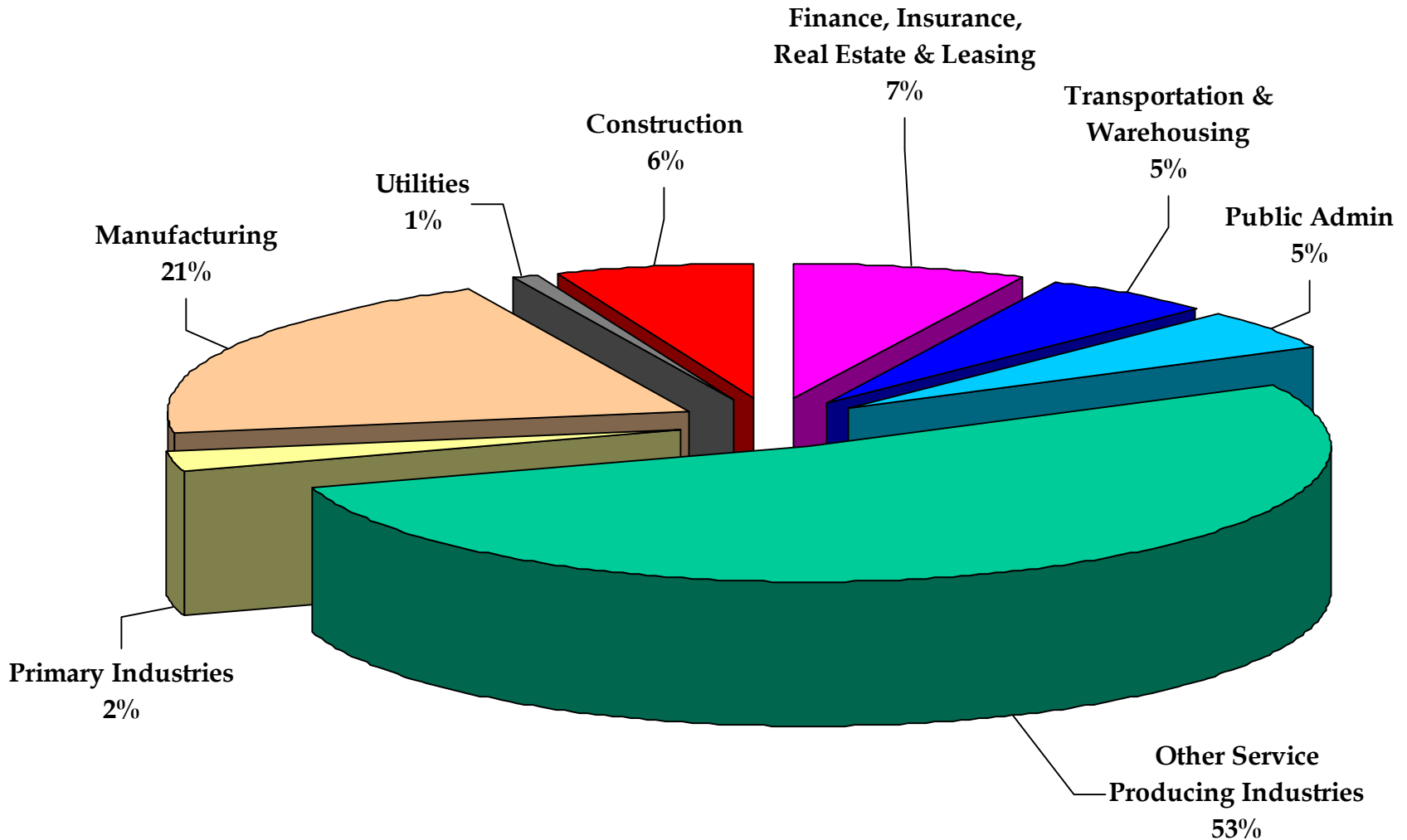
A Strong Development & Construction Industry...means an Healthy Ontario

Construction Share of Ontario GDP



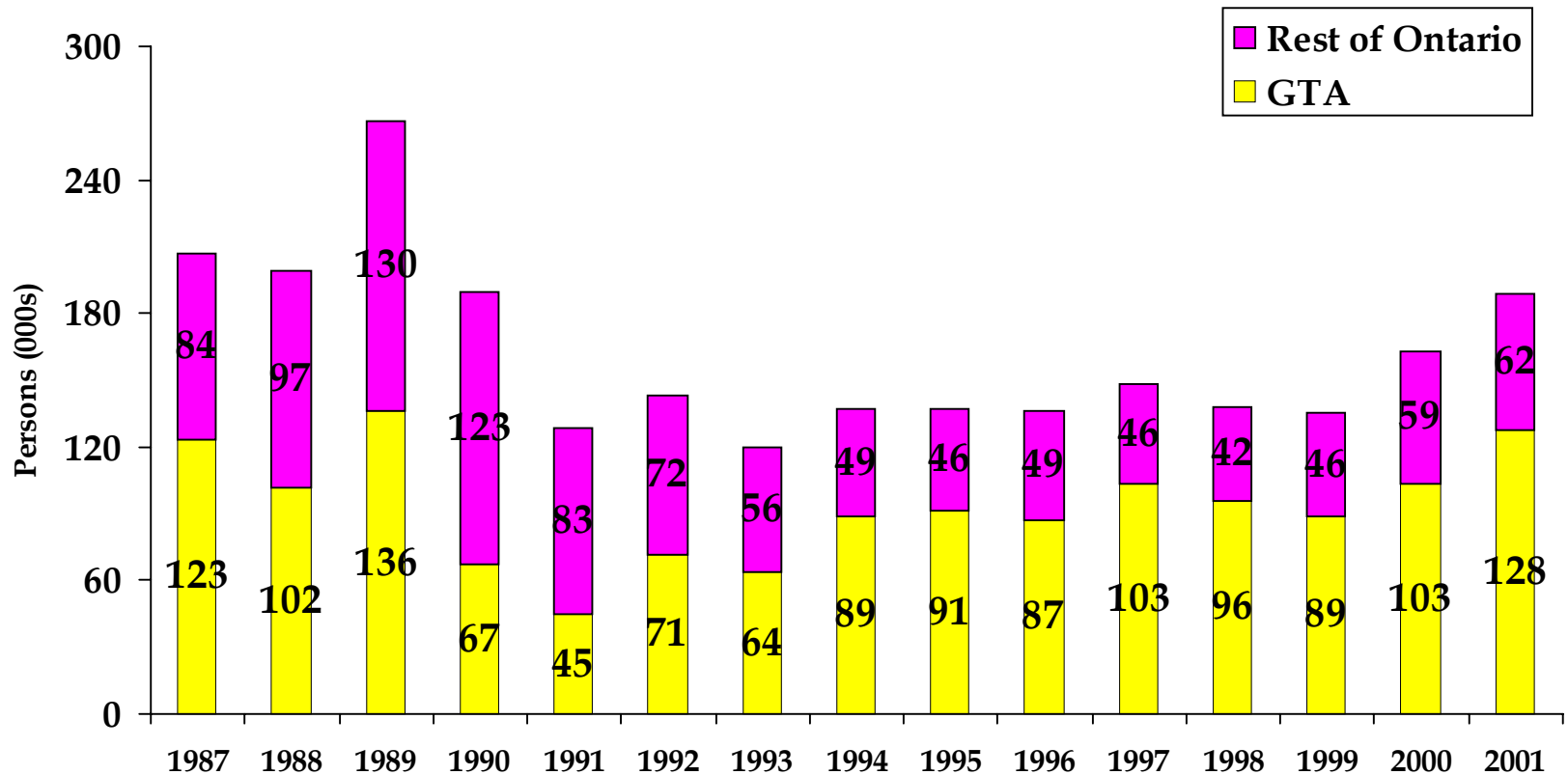
Source: Ministry of Finance, Ontario Economic Accounts, May 2001

Ontario Employment by Industry



Source: Ministry of Finance, 2001 Ontario Economic Outlook and Fiscal Review; Statistics reflect Year 2000 data

The GTA is the Catalyst of Ontario's Population Growth



* 12 months ending in July of indicated year

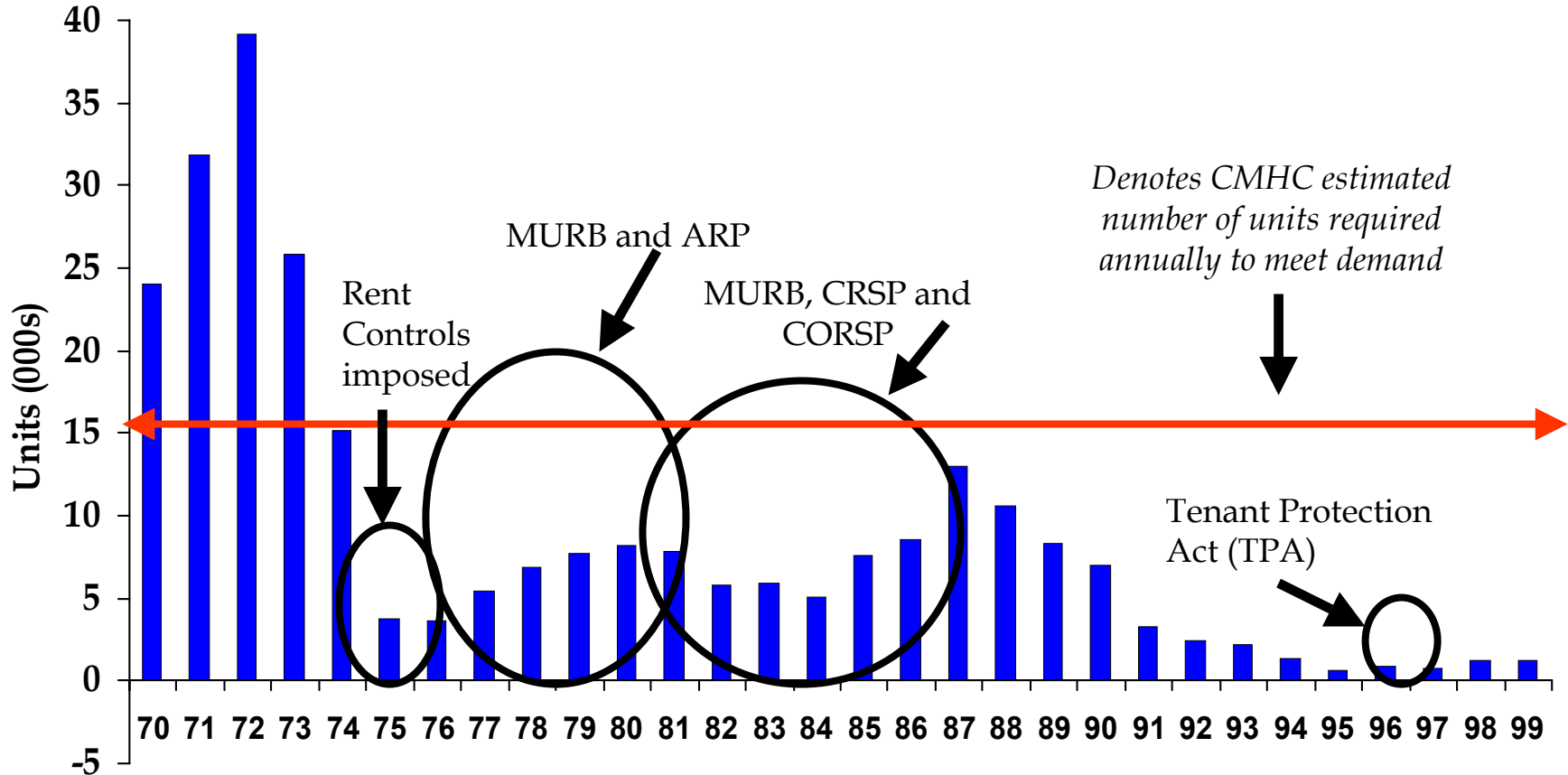
Source: Clayton Research based on Statistics Canada data

The Rental Housing Problem...

Cause and Effect

- Governments have typically used a “stick” rather than a “carrot” approach to rental housing – with a view to solving the problem.
- Rent controls and over-regulation have perpetuated a lack of legislative certainty and investor confidence.
- In turn, a lack of new purpose-built rental housing construction has caused low vacancy rates.
- Significant employment and population growth coupled with immigration/migration have created significant demand for rental accommodation.
- Many renters, across the Province have insufficient incomes to afford adequate and suitable accommodation.

Ontario's Privately Initiated Rental Housing Starts 1970-1999



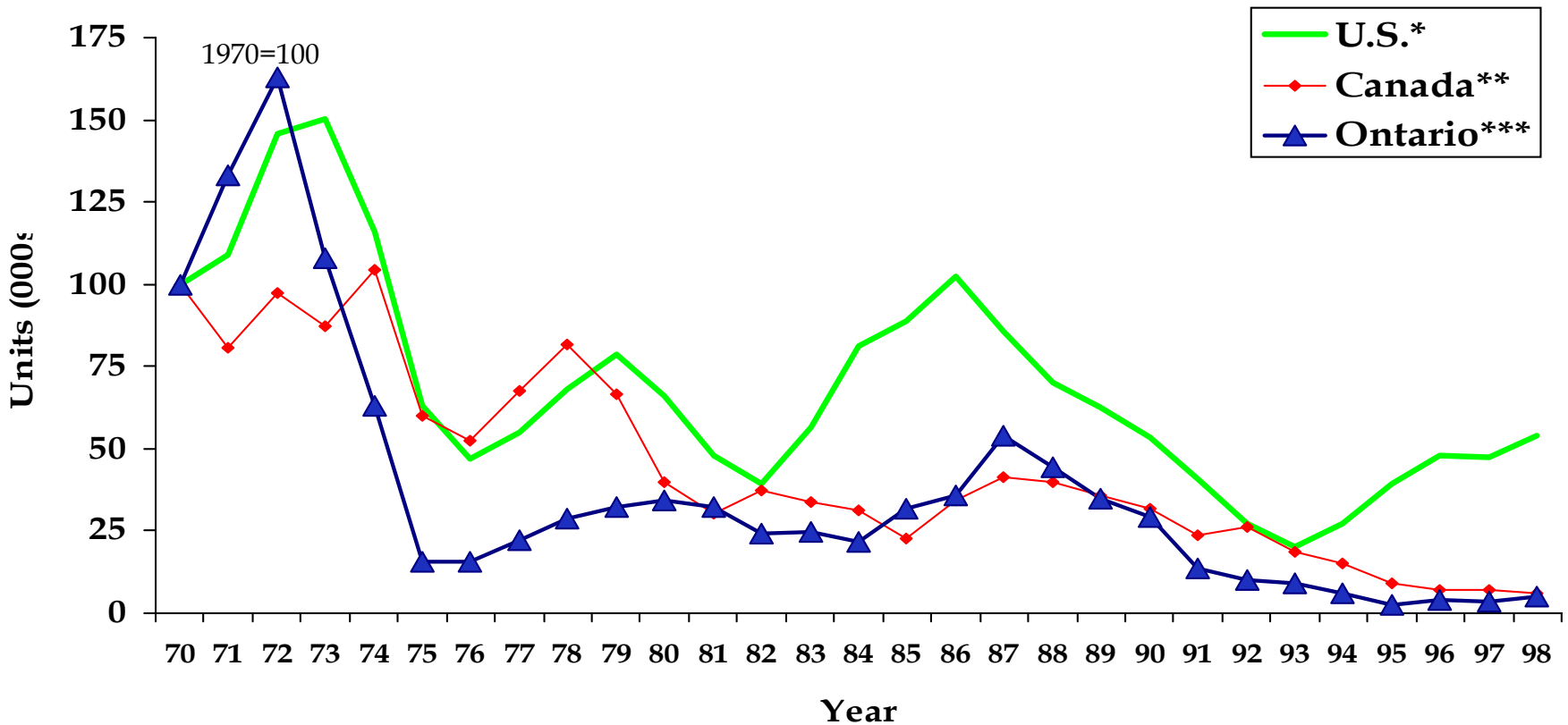
* Urban centres of 10,000 or more population

Source: Clayton Research based on MMAH data

U.S. Rental Housing production outpaces Canada

Canada

Privately-Initiated Rental Apartment Units



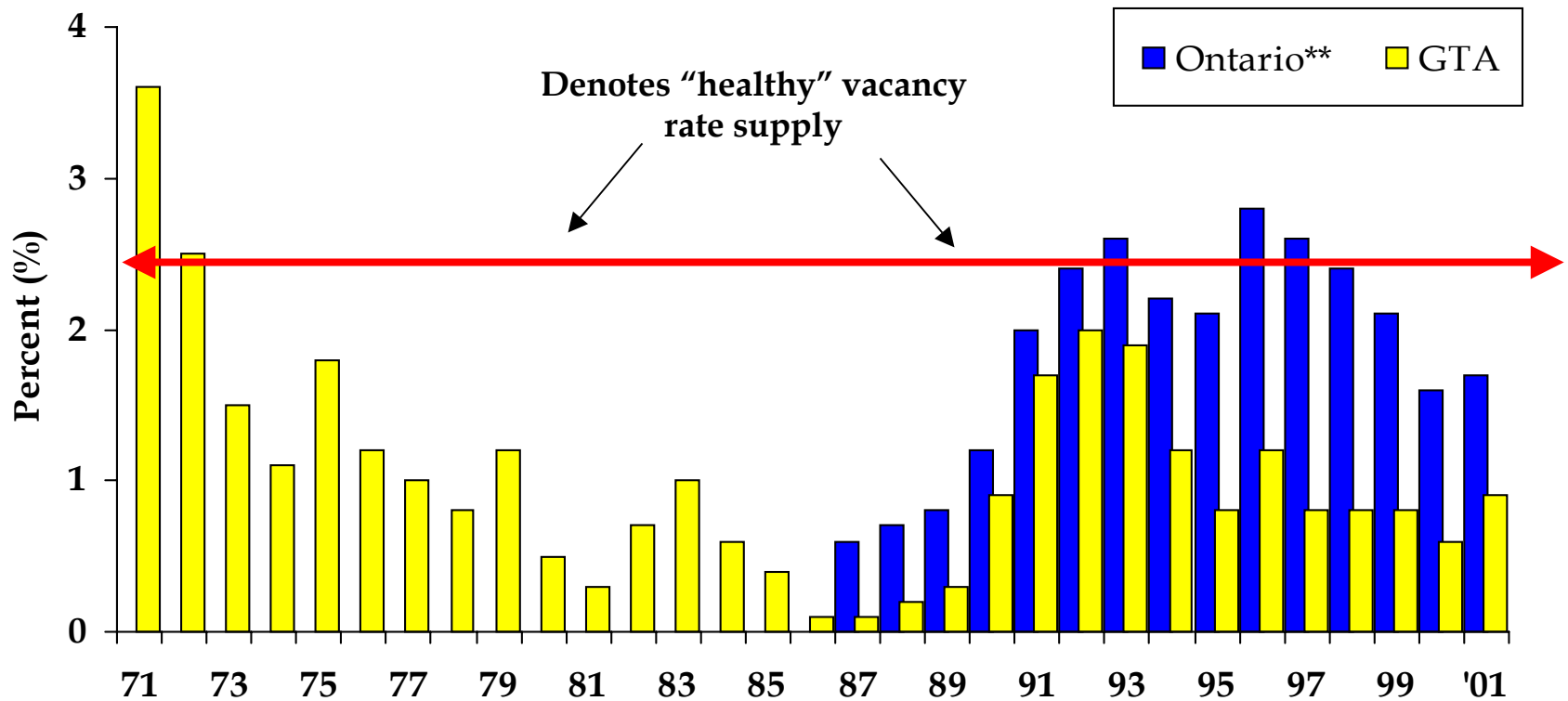
* In all areas; only includes privately owned structures of 5 or more units

** In 26 major markets

*** For urban centres of 10,000 or more population

Note: Data for Canada, Ontario and U.S. not strictly comparable; they are provided here to compare trends, not actual levels

Rental Vacancy Rates remain well below “healthy supply” in the GTA



* October vacancy rates in privately-initiated rental apartment structures of 6 or more units

** Urban centres with 10,000 population and over.

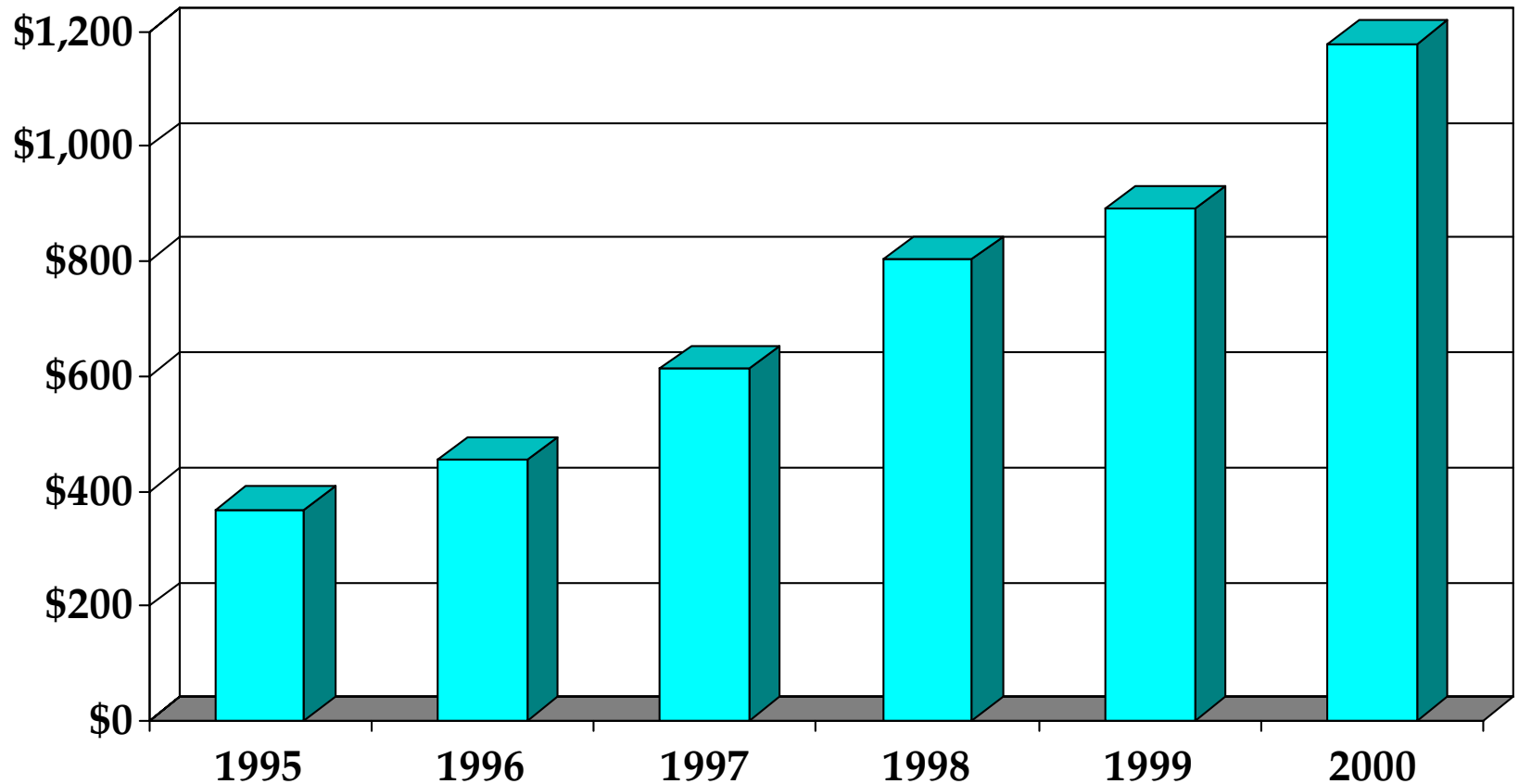
Note: The vacancy rate for the Rest of Ontario is not available pre-1987.

Actions & Policies of Government are Assisting in Reviving the Rental Industry

- Tax cuts (corporate/capital taxes specifically) have generally allowed investors to re-deploy capital back into their assets.
- Repealed the *Rental Housing Protection Act*.
- Introduced the *Tenant Protection Act* – balanced landlord and tenant issues and gave certainty to investment decisions for capital expenditures.
- Allowed condo-registered buildings to qualify for single family property tax assessment rate.
- Amended the *Municipal Act* to allow municipalities to “bonus” private developers by waiving municipal fees and charges in return for the provision of affordable housing.
- Provincial Sales Tax Grant Program – \$2,000 per affordable new rental unit (subject to unit size).
- Housing Supply Working Group– undertaking research in partnership with industry.

But legislative certainty is critical to increase private rental housing supply!

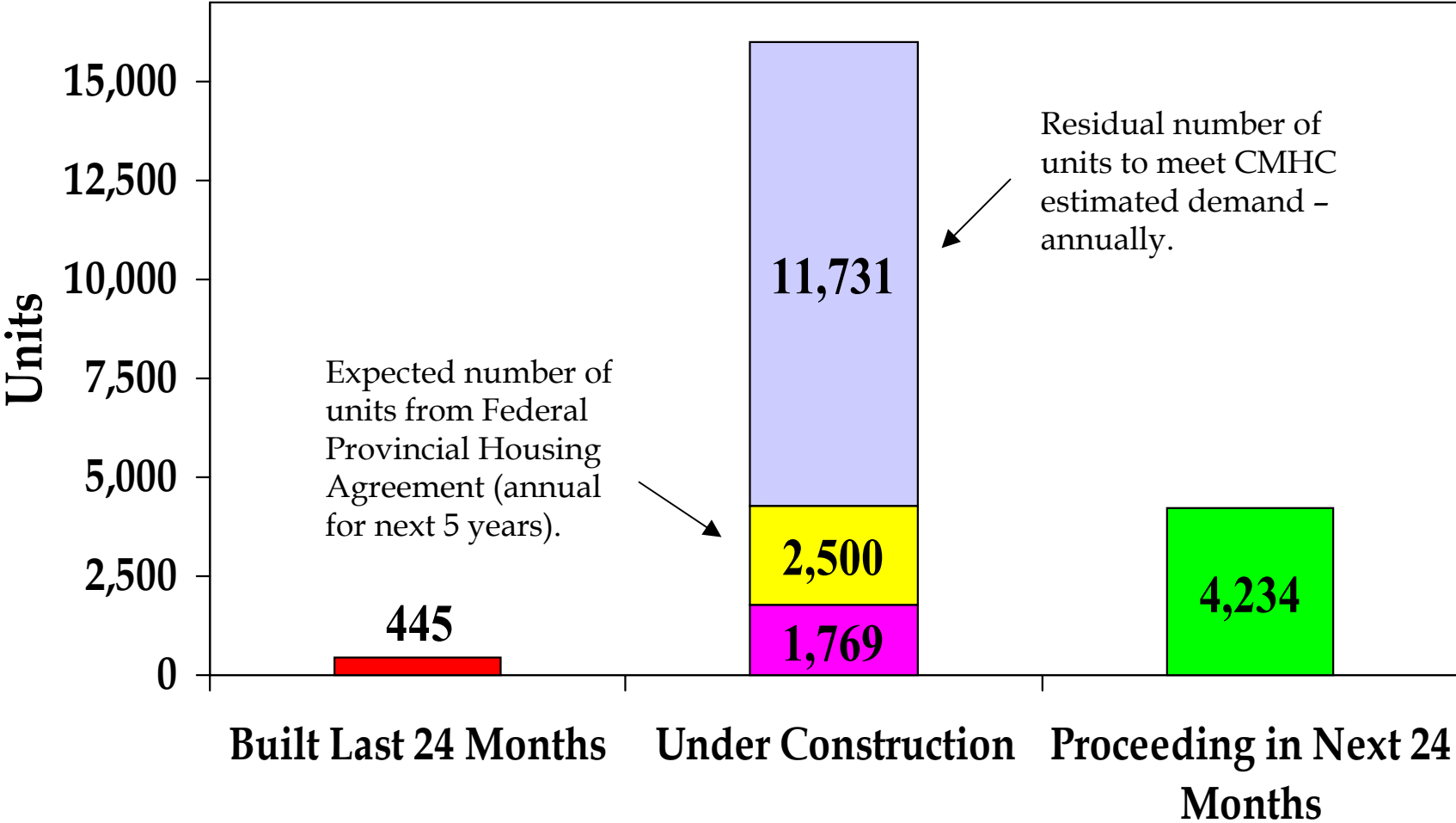
Capital Expenditures Per Unit on Rental Apartment Buildings, Ontario*



* Universe average, 1995-2000 = 61,840 units.

Source: FRPO survey of apartment owners, September 2001.

Rental Housing Construction Activity & Plans...but more is needed to close the gap



Source: FRPO survey of apartment owners, October 2001.

Rental Housing Supply... Has Huge Filtering Benefits

- What is “*Filtering*”
 - ...generally described as the process where persons move from rental housing to other housing types, leaving their former housing unit vacant.
 - This in turn lowers the demand for the housing they formerly occupied, permitting others with lower incomes to assume the unit(s).
- Research confirms when rental housing supply is added to existing inventory, **it frees up more affordable existing housing stock.**
 - Ottawa and Toronto projects under construction (2 bedroom townhouse - rents ranging from \$1,200-1,300/month);
 - 83% of the new tenants surveyed moved from existing rental housing stock;
 - 52% of new tenants came from apartments that rented for less than the average CMHC market

Fear of Future Regulatory Change Results in Lack of Confidence & Certainty

A recent FRPO survey asked those who indicated they have not examined the feasibility of rental development why they had not looked at developing. Here is how the results broke down:

“What are the key reasons you would not even consider new rental construction?”

61% I do not want to invest in rental because I am worried about future changes to the regulatory environment

57% I know without even reviewing that it is not financially feasible

46% I am primarily an owner/manager, and do not know enough about construction to take on construction risk

11% I know I would not be able to secure financing

Market Economics and Risks remain... A Significant Barrier

The FRPO also asked those who had reviewed development projects, but decided not to proceed, why they were not proceeding. Here are the results:

- 94%** *Municipal fees and charges*
- 82%** *Fear of future regulatory changes (e.g. rent controls)*
- 59%** *Property taxes too high*
- 47%** *Concern about construction risk*
- 47%** *CMHC mortgage insurance criteria*
- 29%** *Leasing risk*
- 23%** *Couldn't obtain financing*

A Call for a Provincial Housing Strategy

- Build on the policy and economic gains to date in order to maintain positive investment climate.
- Market conditions have caused renewed interest in purpose-built rental housing.
- Ontario missing out on significant new investment, job creation and tax revenues.
- **Main barrier is fear of future legislative change and expropriation of our investments**
 - *Provide a commercial contract and/or;*
 - *Provide a financial guarantee, not triggered unless negative legislative change.*
 - Both of these measures are “no cost to Ontarians” and in fact generate new revenues and create much needed rental housing supply.